

**Memorandum**

Date SEP 29 1995

From Deputy Inspector General
for Audit Services

Subject Superfund Financial Activities at the National Institute of
Environmental Health Sciences for Fiscal Year 1994 (CIN: A-04-95-04551)

To Leamon M. Lee, Ph.D.
Associate Director for Administration
National Institutes of Health

The attached final report provides you with the results of our audit of the National Institute of Environmental Health Sciences (NIEHS) Superfund financial activities for Fiscal Year (FY) 1994. The audit showed that NIEHS generally administered the fund according to Superfund legislation. The report contains recommendations which will, if effectively implemented, strengthen the financial controls over Superfund resources. In its written response, The Public Health Service concurred with our recommendations and provided a plan of corrective action.

Our audit was conducted pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended. This Act requires the Inspector General of each Federal organization with Superfund responsibilities to conduct audits of all payments, obligations, reimbursements, or other uses of the Superfund. Through interagency agreements with the Environmental Protection Agency, NIEHS obligated approximately \$53 million in Superfund resources during FY 1994 and disbursed approximately \$57 million of funds obligated during and prior to that year.

We would appreciate being advised within 60 days on the status of corrective actions. Should you wish to discuss the issues raised by our review, please call me or have your staff contact Joseph J. Green, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. Please refer to the Common Identification Number (CIN) A-04-95-04551 in all correspondence relating to this report.


Thomas D. Roslewicz

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SUPERFUND FINANCIAL ACTIVITIES AT
THE NATIONAL INSTITUTE OF
ENVIRONMENTAL HEALTH SCIENCES
FOR FISCAL YEAR 1994**



THOMAS D. ROSLEWICZ
Deputy Inspector General
for Audit Services

A-04-95-04551
SEPTEMBER 1995

EXECUTIVE SUMMARY

This final report provides the results of our audit of the National Institute of Environmental Health Sciences (NIEHS) Superfund financial activities for Fiscal Year (FY) 1994. We conducted the audit to comply with provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Act). The Act requires the Inspector General of a Federal organization with Superfund responsibilities to annually audit all uses of the Superfund.

The NIEHS receives funds through an interagency agreement (IAG) with the Environmental Protection Agency (EPA) to carry out health related and other functions mandated by Superfund legislation. During the period October 1, 1993 through September 30, 1994, NIEHS' obligations of Superfund resources totaled about \$53 million and disbursements totaled about \$57 million of funds obligated during and prior to that year.

Our audit showed that NIEHS generally administered the fund according to the Superfund legislation. However, NIEHS had not billed EPA for \$407,953 of costs accrued during our audit period. This occurred because the National Institutes of Health (NIH), which provides certain administrative functions for NIEHS, did not have procedures to reconcile the total of budgets for individual common accounting numbers to the total IAG budget. As a result, NIH failed to detect a clerical error on a budget document and erroneously used an understated budget limitation amount.

We are recommending that NIH:

- bill EPA for the \$407,953 of accruals that had not been billed, and
- establish procedures to ensure that future billings are fully reconciled to the total resources so that budget limitation errors do not go undetected.

In its written response to our report, PHS concurred with our recommendations and provided a plan of corrective action.

TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	i
ABBREVIATIONS USED	iii
BACKGROUND	1
OBJECTIVES, SCOPE AND METHODOLOGY	1
RESULTS OF AUDIT	3
ALLOWABILITY OF COSTS	4
Intramural Billings	4
Recommendations	5
PHS Comments	5
OVERHEAD	5
COSTS RECORDED ON A SITE-SPECIFIC BASIS	6
MINORITY CONTRACTORS UTILIZATION REPORT	6
COMPLIANCE	6
INTERNAL CONTROLS	6
APPENDIX - Public Health Service Comments	

ABBREVIATIONS USED

Act	Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended
CAN	Common Accounting Number
CFR	Code of Federal Regulations
CIN	Common Identification Number
Comp. Gen.	Comptroller General Decision
EPA	Environmental Protection Agency
FY	Fiscal Year
HHS	Department of Health and Human Services
IAG	Interagency Agreement
NIEHS	National Institute of Environmental Health Sciences
NIH	National Institutes of Health
OIG	Office of Inspector General
OS	Office of the Secretary, HHS
PHS	Public Health Service
SARA	Superfund Amendments and Reauthorization Act of 1986

BACKGROUND

The NIEHS, located at Research Triangle Park, North Carolina, is a component of NIH. The NIH provides NIEHS with direction, billing services, and other administrative and professional services. The NIH is an agency of PHS within the Department of Health and Human Services (HHS). Effective October 1, 1995, all PHS agencies will become separate components of HHS, reporting directly to the Secretary.

The Act mandated the establishment of the Hazardous Substance Response Fund, which is commonly known as Superfund. The Act was extended and amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA). The Superfund is a trust fund managed by EPA. The fund is used to respond to emergency environmental conditions that are hazardous to health and to pay for the removal of toxic substances.

The NIEHS receives funding from EPA to carry out functions mandated by the Act. In carrying out its Superfund responsibilities, NIEHS uses about 5 percent of these funds for administrative costs and awards the remaining 95 percent to other organizations. These organizations:

- train persons who are engaged in hazardous waste removal, containment, transportation or emergency response activities; and
- study the effects of exposure to specific chemicals.

Funds are obligated by NIEHS when it agrees to fund activities related to the Act. Funds are disbursed by NIEHS after the activities have been completed. During the period October 1, 1993 through September 30, 1994, the NIEHS obligated about \$53 million and disbursed about \$57 million in Superfund resources. Of the \$57 million of disbursements, \$4 million was related to FY 1994 funds. The remaining \$53 million was related to prior periods.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine:

- the allowability, allocability, and reasonableness of costs claimed under NIEHS' agreement with EPA;
- whether NIEHS charged overhead in compliance with section 601 of the Economy Act of 1932 and Comptroller General Decisions (Comp. Gen.) 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978);
- whether NIEHS was able to accurately record costs on a site-specific basis; and
- whether NIEHS submitted the minority contractors utilization report timely and whether the report was supported by relevant documentation.

The audit was conducted to comply with section 111(k) of the Act, as amended by SARA. We performed the audit in accordance with IAG DW75937019-01-0 between EPA's Office of Inspector General (OIG) and HHS' OIG.

The NIH provided a financial transactions listing of Superfund obligations and disbursements recorded during the period October 1, 1993 through September 30, 1994. This listing included grant obligations of \$50,344,568 and nongrant obligations of \$2,590,784. The \$50,344,568 of grant obligations consisted of \$50,377,499 for FY 1994 funds and a deobligation of \$32,931 for prior year funds. In addition, the listing included grant disbursements of \$54,296,737 and nongrant disbursements of \$2,452,345.

The NIEHS entered agreements with universities, unions, and other nonprofit organizations to carry out its responsibilities under the Act. We verified the \$50,377,499 of obligations to the grant award documents for the 37 research, training and scientific evaluation grants. The scope of our audit did not include auditing disbursements by the grantees. These grants are subject to independent audits under 45 Code of Federal Regulations (CFR) 74.62.

To determine which grantees had submitted current audits in accordance with 45 CFR 74.62, we identified all grantees from inception of the Superfund program at NIEHS and listed the audit information that we had obtained in prior years. We contacted HHS OIG National External Audit Review Center and requested current audit information on all grantees. We analyzed this data and made a determination as to whether the grantees had submitted current audits.

We reviewed a stratified random sample of 100 nongrant transactions. This sample consisted of 30 personnel and 70 "other" disbursement transactions. The 30 personnel disbursement transactions that we reviewed totaled \$17,210 from the universe of 787 personnel transactions totaling \$497,945. The 70 "other" disbursement transactions that we reviewed totaled \$22,665 from the universe of 1,172 "other" transactions totaling \$1,954,400.

We also reviewed a judgmental sample of 18 unliquidated nongrant obligations. These 18 transactions totaled \$396,647 from a universe of \$1,693,238 in unliquidated obligations. The associated disbursements for these transactions will be subject to review in future Superfund audits.

We interviewed NIEHS officials to determine if they had a system for recording costs for specific sites.

We performed general tests of compliance with laws and regulations, such as those covering cost principles. In addition, we tested NIEHS' compliance with provisions of the following laws:

- section 601 of the Economy Act of 1932 and amendments thereto (IAGs);
- 56 Comp. Gen. 275 (1977) and 57 Comp. Gen. 674 (1978), (inclusion of overhead in IAGs);
- Title II, section 311 of the Act, (Functional Requirements of NIEHS); and
- Title I, section 105(f) of the Act, (minority contractors utilization).

As part of our audit, we evaluated NIEHS' system of internal controls to the extent necessary to accomplish the objectives of the audit. However, our audit did not include a comprehensive evaluation that would be necessary to express an opinion on the system of internal controls taken as a whole. For the purposes of this audit, we classified significant internal controls into seven categories:

- Funding Authority
- Financial Reporting
- Payroll and Timekeeping
- Travel
- Other Contractual Services
- Grants, Subsidies, and Contributions
- Equipment

We issued the report on Superfund Financial Activities for FY 1993 (CIN A-04-94-04545) on June 8, 1995; therefore, PHS had not had time to act on the specific recommendations. Accordingly, we could not specifically follow-up to ensure that all the matters brought to management's attention in the prior report had been resolved.

We conducted our audit in accordance with generally accepted government auditing standards applicable to financial-related audits. Our review was performed at NIEHS in Research Triangle Park, North Carolina, NIH in Bethesda, Maryland, and at our Raleigh, North Carolina, Field Office during the period November 1994 through May 1995.

The PHS provided a written response to our report dated July 20, 1995. The PHS' comments are summarized after the finding. The entire text of the comments is included as an Appendix to the report.

RESULTS OF AUDIT

Our audit showed that NIEHS:

- generally incurred Superfund obligations and made disbursements for allowable, allocable, and reasonable costs; however, NIH had not billed EPA for \$407,953 of accrued costs;

- was in compliance with the Economy Act with regard to charging overhead;
- did not have a need to record costs on a site-specific basis; and
- submitted, in a timely manner, a minority contractors utilization report that was supported by relevant data; however, one contract that should have been included was inadvertently omitted.

Following are the results of our audit by audit objective along with sections on compliance and internal control as required by generally accepted government auditing standards.

ALLOWABILITY OF COSTS

The Superfund transactions included in our review for the period October 1, 1993 through September 30, 1994 relate to FY 1989 through FY 1994 funds. The financial transactions were generally properly and accurately recorded. Supporting documentation showed that obligations were incurred and disbursements were made for Superfund activities. We found no indication of payments or uses of the Superfund monies other than those shown in NIEHS' records. However, we believe that NIH needs to make improvements in the following area:

Intramural Billings

Intramural billings are billings for funds expended internally by NIEHS for administrative costs. According to NIEHS' procedures intramural billings are based on amounts accrued. According to the IAG between NIEHS and EPA, billings should be made on a quarterly basis.

The NIEHS prepares budget documents that establish limits for each Common Accounting Number (CAN). These budget documents are sent to the billing office of NIH. Billings are prepared based on accruals; however, NIH also ensures that the billings do not exceed budget limitations.

We compared costs accrued to costs billed as of September 30, 1994. Costs accrued for CAN 48320894 were \$471,453 and costs billed were \$397,414. This comparison showed that NIH had not billed EPA for \$74,039 of costs which had been accrued. Since NIH stated that this underbilling was corrected in a subsequent billing, we reviewed the next billing dated November 25, 1994 to determine if the accrued costs had been billed.

In reviewing this billing, we determined that not only had the \$74,039 not been billed but that \$333,914 had been credited on the November 25, 1994 billing. As a result, the total underbilling for costs accrued through September 30, 1994 was \$407,953.

This occurred because NIEHS submitted a budget document which limited CAN 48320894 to a budget of \$63,500 to NIH. This amount was a typographical error and should have been \$635,000. When NIH received the budget document, it credited the billing to EPA by the difference between the amount which had been billed (\$397,414) and the \$63,500 budget limitation. As a result, NIH had not claimed \$333,914 from EPA for costs incurred for the Superfund program. In addition, based on the budget document NIH did not bill the additional \$74,039 of costs accrued since its last billing.

If the amount budgeted for each CAN had been reconciled to the total per the budget document the typographical error could have been picked up and corrected.

Recommendations

We recommend that NIH:

- o Bill EPA for \$407,953 accrued as of September 30, 1994, and
- o Establish procedures to ensure that future billings are fully reconciled to the total resources so that budget limitation errors do not go undetected.

PHS Comments

The PHS concurred with these recommendations. On May 5, 1995, NIH billed EPA \$407,929 for Superfund expenditures which had been accrued but not billed at September 30, 1994. The NIH is reviewing its records to identify the \$24 difference between the OIG draft report and the NIH general ledger. Once the reason for the difference is determined, NIH will take appropriate action.

In addition, NIH will amend its current procedures for claiming reimbursement from EPA to ensure that future billings are reconciled to total resources so that budget limitation errors do not go undetected.

OVERHEAD

Our review showed that NIEHS did not charge overhead in FY 1994. According to NIH and NIEHS, the overhead amount that would be recovered would be less than the cost of the additional time to account for overhead and the cost of modifications to their accounting system.

We concur with NIH's and NIEHS' assessment of overhead and believe that their decision is in accordance with the Economy Act of 1932, as amended.

COSTS RECORDED ON A SITE-SPECIFIC BASIS

The NIEHS does not record costs for specific sites because it is only involved with research and worker training. Costs for these activities cannot be identified to a specific site. Therefore, it was not necessary for NIEHS to have been able to record costs for specific sites.

MINORITY CONTRACTORS UTILIZATION REPORT

The minority contractors utilization report is required annually by EPA under the IAG. The report should list contracts with minority businesses, and was due on December 15, after the end of the FY.

The NIEHS compiles information required for the minority contractors utilization report and this information is submitted to the HHS Office of the Secretary (OS) through NIH and PHS. The HHS/OS compiles a report containing all information for HHS and submits it to EPA. We reviewed the report submitted to NIH by NIEHS and found it to be supported by relevant documentation; however, one contract that should have been included was inadvertently omitted from this information. The NIEHS plans to submit information regarding this contract to NIH so that it can be provided to the OS.

The HHS/OS submitted a consolidated minority contractors utilization report to EPA in a timely manner which included all the information that had been provided by NIEHS. When NIEHS submits revised information and the OS submits a revised report to EPA the information provided to EPA should be correct.

COMPLIANCE

Compliance with laws and regulations, contracts, grants, and IAGs applicable to NIEHS is the responsibility of NIEHS' management. With respect to the items tested, NIEHS complied--except as described in the "Results of Audit" section of this report--in all material respects, with the provisions of applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that NIEHS had not complied, in all material respects, with those provisions.

INTERNAL CONTROLS

The NIEHS is responsible for establishing and maintaining internal control systems used in administering Superfund programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of internal control systems is to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Although our audit did not disclose material irregularities, we noted a matter involving the internal control structure and its operations that we consider a reportable condition based on reporting requirements of generally accepted government auditing standards. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial reports. This matter is discussed under the heading *Intramural Billings* on page 4.

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We would appreciate your comments within 60 days on the status of corrective actions. Should you wish to discuss the issues raised by our review, please call me or have your staff contact Joseph J. Green, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582. Please refer to the CIN A-04-95-04551 in all correspondence relating to this report.

APPENDIX

PUBLIC HEALTH SERVICE (PHS) COMMENTS
ON THE OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORT
"SUPERFUND FINANCIAL ACTIVITIES AT THE NATIONAL INSTITUTE OF
ENVIRONMENTAL HEALTH SCIENCES FOR FISCAL YEAR 1994,"
A-04-95-04551, JULY 1995

This report provides the results of the OIG audit of the Superfund financial activities of the National Institute of Environmental Health Sciences (NIEHS), National Institutes of Health (NIH), for Fiscal Year (FY) 1994.

The OIG audit found that NIEHS generally administered the Superfund monies in accordance with Superfund legislation. The auditors noted, however, that NIH had not billed the Environmental Protection Agency (EPA) for \$407,953 of costs accrued during FY 1994. This occurred because NIH had not detected a clerical error on a budget document and incorrectly used an understated budget limitation amount in claiming reimbursement from EPA.

The OIG report makes recommendations to address this matter.

OIG Recommendations

We recommend that PHS require NIH to:

- o bill EPA for \$407,953 accrued as of September 30, 1994, and
- o establish procedures to ensure that future billings are fully reconciled to the total resources so that budget limitation errors do not go undetected.

PHS Comment

*We concur. On May 5, 1995, NIH billed EPA \$407,929 for Superfund expenditures which had been accrued but not billed at September 30, 1994. The NIH is reviewing its records to identify the \$24 difference between the OIG draft report and the NIH general ledger. Once the reason for the difference is determined, NIH will take appropriate action.

In addition, NIH will amend its current procedures for claiming reimbursement from EPA to ensure that future billings are reconciled to total resources so that budget limitation errors do not go undetected.